

## Corporate Governance (Roundtable with Independent Directors)

### Building Trust for Value Co-Creation: Achieving Further Objectivity and Transparency



#### PARTICIPANTS (FROM LEFT TO RIGHT)

**Kenichi Masuda** Independent Director, Chairperson of the Nominating Committee, Chairperson of the Compliance Committee

**Yuri Okina, Ph.D.** Independent Director, Chairperson of the Compensation Committee

**Kenzo Yamamoto** Independent Director, Chairperson of the Audit Committee

**Scott Trevor Davis, Ph.D.** Independent Director, Chairperson of the Board of Directors, Chairperson of the Governance Committee



## 1. Transformation of Bridgestone's governance

**Dr. Scott Davis:** It has been five years since Bridgestone transitioned to the "Company with a Nominating Committee, etc." model of corporate governance in March 2016. I'd like to take this opportunity to discuss the transformation of the Bridgestone Group's corporate governance by taking another look at how its governance has changed over the years, what it has been aiming for, why it has been important, and what efforts have been made to achieve such changes.

In my view, one of the most significant changes since becoming a company with a Nominating Committee is that the Board of Corporate Auditors became the Audit Committee. Mr. Yamamoto, what are your impressions looking back on the past five years?

#### **Scott Trevor Davis, Ph.D.**

Independent Director, Chairperson of the Board of Directors, Chairperson of the Governance Committee

## 1.1 Audit Committee: Strengthening checks and balances functions



**Kenzo Yamamoto**  
Independent Director, Chairperson  
of the Audit Committee

**Kenzo Yamamoto:** It has been three years since I was appointed Chairperson of the Audit Committee. First of all, I recognize that Bridgestone has raised its own bar through ongoing organizational reform since adopting the Company with a Nominating Committee, etc. model in 2016. One of the themes of the Audit Committee was to further improve the conventional audits that mainly focused on compliance and risk, and to further strengthen the management audit perspective. In particular, how are the control functions away from the work floor, such as quality control, safety and disaster prevention, environment, human resources and labor management, controlling the entire organization in a cross-sectional fashion? In other words, we have been strengthening audits from the perspective of how to formulate a common global, foundational policy, how this is implemented on the front lines, and how the control functions monitor it.

The second point I would like to highlight is the global coordination of auditing. This is being strengthened through the processes of the operating divisions in charge of business execution globalizing their organizations so that Bridgestone becomes an even more global company. We also have enhanced connections with the audit committees of BSAM, BSEMIA, and BSCAP as part of the Audit Committee's own global transformation. Furthermore, our accounting auditors also are expanding their activities globally, and as a result, we in Japan have been able to forge stronger links to them through global meetings with accounting auditors in each regional location.

As for our future policies, I would like to emphasize how the new structure will function in the process of further organizational reforms within the Group, in line with the Mid Term Business Plan.

I think there are still many issues to be addressed. For example, sustainability in some areas requires technological development, and enhancing disclosure is required in others. Bridgestone's journey is continuing, and I would like to follow along each step of it from an auditing perspective.

**Davis:** Before the transition to a Company with a Nominating Committee, etc., your position was to oversee Bridgestone as an auditor who participated in board meetings, but did not have the voting rights of a director. After the transition, you became a member of the Audit Committee as a member of the Board of Directors, which was a big change. How has this changed the capabilities or perspectives of the audit function?

**Yamamoto:** Information is now being gathered from both the Board of Directors and the Audit departments. At the board meetings, we receive input from operating divisions, while at the Audit Committee meetings, we hear from the Audit Department. This approach has deepened our overall understanding. In a sense, I also am a member of the Audit Committee as a director. I feel that a healthy tension between execution and management and between execution and independent directors has been fortified, such that it is now possible to oversee from multiple perspectives and in a more holistic manner.

## 1.2 Compensation Committee: Exploring compensation to drive the creation of social value

**Davis:** Dr. Okina, as the Chairperson of the Compensation Committee, you are asked to meet with people in key positions in Japan and around the world to lead discussions with management on how to plan and implement incentives. Looking back over the past five years, what have been the biggest changes you have seen?

**Dr. Yuri Okina:** Now that Bridgestone is a Company with a Nominating Committee, etc., I feel that the roles of the Nominating Committee, Compensation Committee and other committees are becoming very important. Discussions in the Compensation Committee have naturally focused on how to design incentives. Such discussions are a constant work in progress, but in the initial stages we introduced a number of innovations, such as successfully changing the weightings in variable compensation, transitioning the stock option system to a Performance Share Unit system, and rewarding behavior that is linked to long-term corporate value growth. We will persistently continue with such discussions as we face unprecedented challenges precipitated by the COVID-19 pandemic.



**Yuri Okina, Ph.D.**  
Independent Director, Chairperson  
of the Compensation Committee

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**Davis:** Do you mean that when you think about the overall compensation package, in addition to reflecting quantitative performance in the incentives, you also consider behaviors that are difficult to quantify but are very valuable in terms of contributions to society and response to environmental issues?

**Okina:** Yes, that's correct. The Bridgestone Group, led by Global CEO Shu Ishibashi, is undergoing a corporate transformation amid the challenges brought on by the COVID-19 pandemic, with the aim of managing the company to address major social issues. Bridgestone also is highly regarded for explaining its initiatives to investors and other external stakeholders in an easy-to-understand manner. As such, sustainability is a major consideration in the Compensation Committee's discussions.

In my opinion, environment (E) and social (S), especially diversity, are very important within ESG. The environmental agenda has been addressed to a great extent, but there are growing expectations for circular business models, a shift to renewable energy in production, and support for electric vehicles. As for the social aspect, I think we need to work on both fronts: what kind of value we can provide to society and how we can ensure diversity within the Group.

In the face of widening inequity, we need to challenge ourselves first to think about what kind of contribution we can make to society as a global company. To make the most of its diverse talents, I hope Bridgestone will become a company where young people can play an increasingly active role, regardless of their backgrounds or genders.

#### 1.3 Nominating Committee: Continuing to select Board members that we can be proud of and trust

**Davis:** The Group operates globally, and we have people with different skills in different places. While it is important to respond to the different objectives and considerations of each region individually, I think it also is vital to create synergies across the entire Group. What has been done by the Nominating Committee in terms of appointing the talent to key positions to move this process forward?



**Kenichi Masuda**  
Independent Director,  
Chairperson of the Nominating  
Committee, Chairperson of the  
Compliance Committee

**Kenichi Masuda:** In the early days of the transition to a Company with a Nominating Committee, etc., I think that both corporate and independent directors conceptually understood what a company with committees was, but not in actual practice. When Bridgestone was a company with a Board of Corporate Auditors, I felt that the Board of Directors, as the highest decision-making body for business execution, was focused on issuing messages to the executive officers and employees at the time, and I think that was only natural. However, when it became a Company with a Nominating Committee, etc., the Board of Directors took a major step forward as a so-called monitoring model. Yet at first, I do not think we necessarily shed our old habits. However, now it has become quite common for everyone who participates in the board meetings, both inside and outside the company, to cooperate and share their opinions, and for independent or non-executive directors to monitor the business operations through interviews or Q&A sessions.

Going forward, the Nominating Committee will continue to select suitable members for the Board of Directors. And I think it is important that these members be perceived as appropriate by shareholders, investors and others outside the company. I also would like to promote the selection of board members who Bridgestone employees can be proud of and trust.

**Davis:** It seems that you have been thinking about the ideal form of governance and management quality for the Group as a whole, while working to promote ever stronger governance going forward in accordance with the Bridgestone way.

**Masuda:** Of course, some initiatives were driven by regulatory requirements, but I think we have been able to bring those into a good form of governance in the Bridgestone style over the past five years, and I personally have been working to contribute to that.

## 2. A year after the Third Founding

**Davis:** Last year, Global CEO Shu Ishibashi delivered a very compelling and powerful message about the Bridgestone 3.0 journey. He discussed evolving through transformation, retaining what was good about the past while not hesitating to make changes and introduce new ideas where necessary. I think the first year was a very meaningful start to this journey. How would you evaluate this last year?

**Yamamoto:** Bridgestone 3.0 has been a huge transformation, and I think it is very meaningful that the company has come to view sustainability and the circular economy as its own issues and has clearly formulated its own policies to address these issues. To me, a sustainable society is one that balances the activities of nature with the degree to which we can control the risks we create. While many companies tend to separate business and CO<sub>2</sub> reduction and think of them as separate things to be achieved, I think it is excellent that the Group is thinking about the circular economy in the context of its business, and that all employees are moving forward with a clear understanding of the issues. Now that Bridgestone is actively balancing social value and customer value as an integral part of its framework, it is much easier for employees to work toward these goals and for its stakeholders to understand.

**Okina:** That's exactly right. I also would like to mention Bridgestone's success in formulating a policy of taking firm measures to deal with various issues in its business portfolio. It is very important to analyze the overall picture of the business portfolio and link it to future policies and strategies. And, as an independent director, I would like to support the company in addressing these issues.

**Davis:** The management team's discussions of the group's business portfolio places due emphasis on enhancing "earning power," while at the same time includes a story of mobility as the next growth business, as a pillar for a better society created through mobility solutions, and a dimension where the environment and the economy can do more than coexist but also create synergies. Could you share your thoughts on this?

**Okina:** It's clear how to become a "sustainable solutions company" will be a major topic of discussion for the Bridgestone Group. Due partly to the impact of the COVID-19 pandemic, I think it is becoming more important than ever for companies to consider what kind of social value they can provide as social entities. The Global CEO himself is addressing this timely topic, and I trust that he is thinking of a new business model that includes the values of how to become a company that can contribute to society. I strongly support such efforts.

**Masuda:** I also think Bridgestone 3.0 is a great vision because it has very clear goals and messages that Bridgestone is going to create both social and customer value. The Bridgestone 3.0 journey has been a challenging one when looked at as a business during a single fiscal year. Yet, I think it was a good start for the Global CEO and all employees to work together, heading in the same direction. I'm excited to see these efforts continue



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#### 3. Bridgestone's true colors under the COVID-19 pandemic

**Davis:** It is said that it is better to observe how people perform during times of crisis rather than to evaluate them during good times when everything is running smoothly. In this sense, the COVID-19 pandemic obviously qualifies as a crisis. As it has worked to prevent the spread of the pandemic and mitigate its effects, what sort of an organization do you think Bridgestone has shown itself to be given the myriad knock-on effects it has encountered during this crisis?

**Okina:** I believe that people's mindsets have definitely changed with the COVID-19 pandemic. As their sense of values and what they look for in a company change drastically through stay-at-home and remote working, it appears that the transition to what's called "stakeholder capitalism" is underway. I feel the Global CEO and other executives are closely monitoring this trend and are acting accordingly. I think this is reflected in the transformations seen in work styles and human resources management.

**Masuda:** As the nature of mobility in our society itself is being reevaluated, I expect the way cars are made and what is required of them to also change. This will, in turn, require a new way of looking at tires. I am confident that the company is formulating its management strategy while accurately grasping these social changes. Bridgestone will stay keenly attuned to such trends as it develops its business.

**Davis:** As well as being a crisis, the COVID-19 pandemic also serves as a catalyst for making the downside of the socio-environmental system, in other words the near-term issues, far more visible than they were previously. It also serves as a lens to help us focus on what we need to solve now for the sake of future generations. I believe the Global CEO's vision of Bridgestone 3.0 also is based on this perspective of forward-looking investments.

#### 4. Appointing the board chair from outside Bridgestone: Striving for further transformation

**Davis:** One of the most obvious changes to the Board of Directors in fiscal 2020 was the appointment of a chairperson from outside Bridgestone. This change means that independent directors elected at the General Meeting of Shareholders will be able to act in the interest of shareholders and deliberate the direction and management of the company with greater objectivity and transparency. What do you think about this, Mr. Yamamoto?

**Yamamoto:** In a Company with a Nominating Committee, etc., the execution of business is entrusted to the executive arm, and the independent directors supervise execution and think about medium- and long-term strategies together with that arm. Therefore, I think it is natural that each of the three committees will be chaired by an independent director, and the chairperson of the Board of



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Directors also be an independent director. Independent directors are in a difficult position. We are not in a position to think together about business execution, and we are not consultants. We are not always in a position to confront the executive arm, although we do challenge them. Keeping this in mind, we listen to the details from the executive side and judge whether the business operations are aligned with company's goals. I think this means that we now have a structure in place for the chair to act as a highly effective catalyst for these discussions.

**Okina:** The Bridgestone Group has undergone a series of governance reforms over many years. It became a Company with a Nominating Committee, etc., increased the number of independent directors, devised various governance evaluation frameworks, and has been making gradual, incremental improvements while diligently conducting these evaluations. I expect governance to be even better now that Dr. Davis has become the chair of this journey. In my opinion, the quality, not the quantity of independent directors, should be scrutinized. In other words, what kind of people are included as independent directors, what kind of person is the chair, and what kind of discussions are held? I personally look forward to contributing to this process.

**Masuda:** The nomination of directors and remuneration of directors and executive officers are now completely entrusted to outside parties, which is quite dramatic and like a breath of fresh air to me. Put differently, Bridgestone is now truly a company with committees. That made it possible to appoint an independent chair of the Board of Directors. We always have had an atmosphere of open discussion at our board meetings, where it was easy to speak out and questions were answered diligently. I anticipate Dr. Davis' appointment as chair will further promote that atmosphere.

## 5. "Serving Society with Superior Quality" around the world: Aiming to be a company that develops with the next generation

**Davis:** I think this structure works in the Bridgestone Group because there is close and frank communication among the independent directors. We have different contexts and different expertise, but we spend a lot of time talking with each other, deliberating within both board and committee meetings. We also invest a lot of time communicating with the leadership team, executives both within Japan and overseas. I think one of the characteristics of Bridgestone is its commitment to investing ample time for such high-quality communication.

I believe this is because Bridgestone is never satisfied with the status quo and has a history of constant improvement and evolution. As it expanded overseas from making tires suited to the Japanese market, Bridgestone progressed from being the "best in Japan" to pursuing the goal of being "best in each region." Currently, it shares best practices globally, and has been working over many years to create synergies on a global scale by taking advantage of the best of all worlds. In my opinion, Bridgestone's evolution from a multinational company to a truly global company is a credit to the former CEO Mr. Masaaki Tsuya, who established the Global Executive Committee. The foundation for this evolution is, of course, communication, and I feel that the Bridgestone Group excels in terms of both structure and mindset regarding its ability to communicate from a global perspective.

Another noteworthy aspect is the promotion of its mission of "Serving Society with Superior Quality." It is clear that all the employees in the Bridgestone Group are focused on this mission and act accordingly. When it formulated its global CSR commitment, *Our Way to Serve*, Bridgestone formed a team of global members, mainly next-generation employees, and spent a lot of time discussing it. *Our Way to Serve* is designed to give shape to the mission of "Serving Society with Superior Quality." Bridgestone's execution of *Our Way to Serve* means that solving social issues enables them to be approached as strategic issues at the core of business itself. Put another way, solving social issues through solutions will lead to the creation of business opportunities. Bridgestone's original mission of "Serving Society with Superior Quality" will be further enhanced by the *Our Way to Serve* policy and enable it to become a sustainable solutions company. In line with this mission, the Bridgestone Group is striving to achieve safe, secure and sustainable mobility and I am sure we are all looking forward to working toward making this a reality.